AR44

Reichhold Chemicals (Canada) Limited

RCI

Annual Report 1970
Rapport Annuel

Sales to the Forest Products Industry in Canada represents 20% of the Reichhold sales dollar. In three plants located across Canada, we are manufacturing millions of pounds of formaldehyde using Reichhold's patented FORMOX® process to supply our requirements for this major raw material for resins used by the forest products industry. Phenol formaldehyde resins are used by plywood and hardboard manufacturers and also as an impregnating resin to bond treated fibre products. Urea formaldehyde resins are used in particleboard, plywood for interior use and as wet strength resins in the paper industry.

In Reichhold Chemicals (Canada) Ltd. we operate three major laboratories devoted to products for the forest products industry. In Toronto the main resin research facilities are equipped with the most modern resin synthesis and analysis equipment in the country. At Port Moody B.C. and Ste. Therese P.Q. we have two well equipped development and evaluation laboratories with Port Moody concentrating primarily on products for the plywood industry and Ste. Therese working on resins for particleboard and related products.

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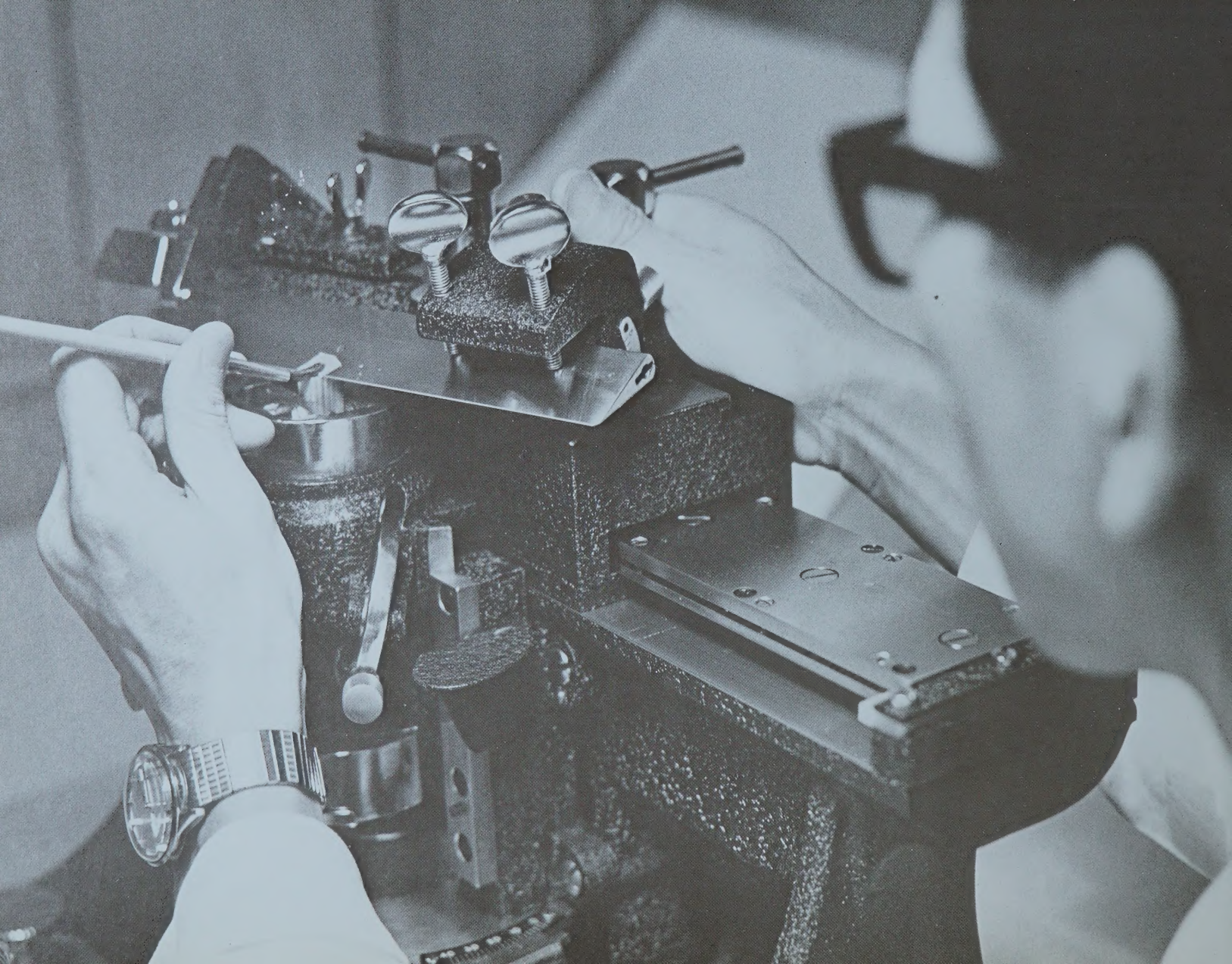
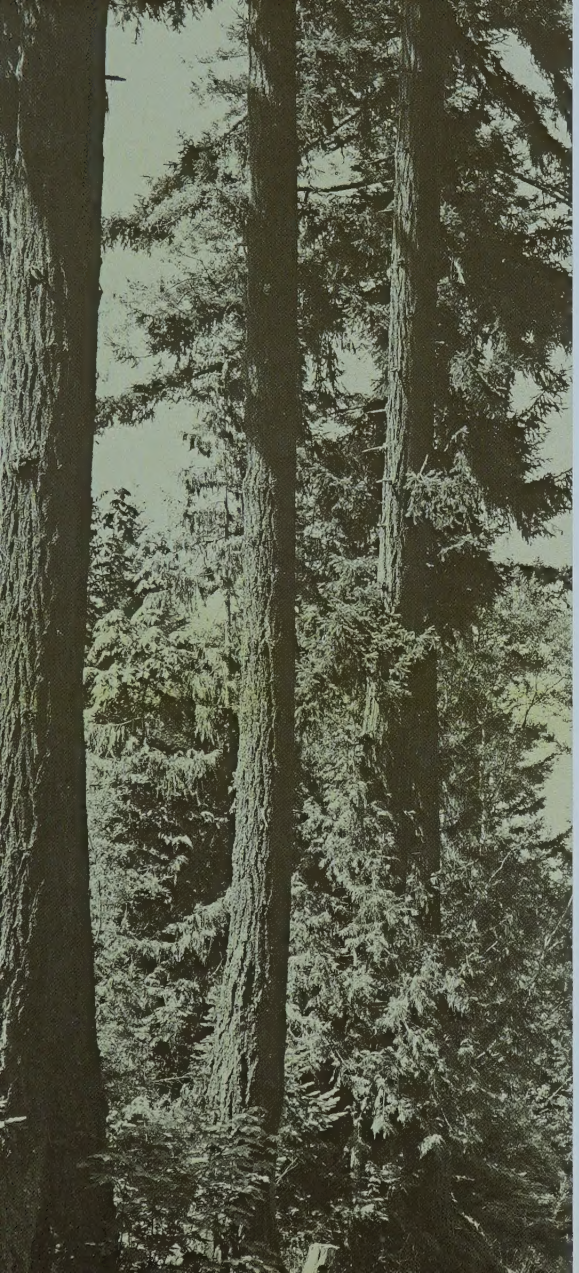




Our business in 1970 started at a good pace. The second quarter, though usually the strongest, was slower than in 1969. Sales in the 3rd and 4th quarters again returned to reasonable levels. In total, sales were up slightly, 2.6%. Gross profit on sales increased by $353,343, while selling, general and administrative expenses increased by a lesser amount. Earnings before income taxes increased by $8,044.

Not all product groups had sales increases in this last year. Those that did however, include latex emulsions for paint, adhesives and floor polish, specialty phenolic resins, polyesters, decorative overlays, and printing inks. To illustrate the physical handling of all products by the company, it may be of interest that over 165 million pounds of products were shipped in 1970. Add to this the raw materials brought in, and the physical handling reaches a formidable 150,000 tons annually. Much of this, of course, is handled in pipe lines with remote control, making it manageable with our relatively small work force.

Considering the extremely poor business conditions of 1970, the company fared reasonably well. No one, of course, is satisfied with anything less than an improvement for the future.

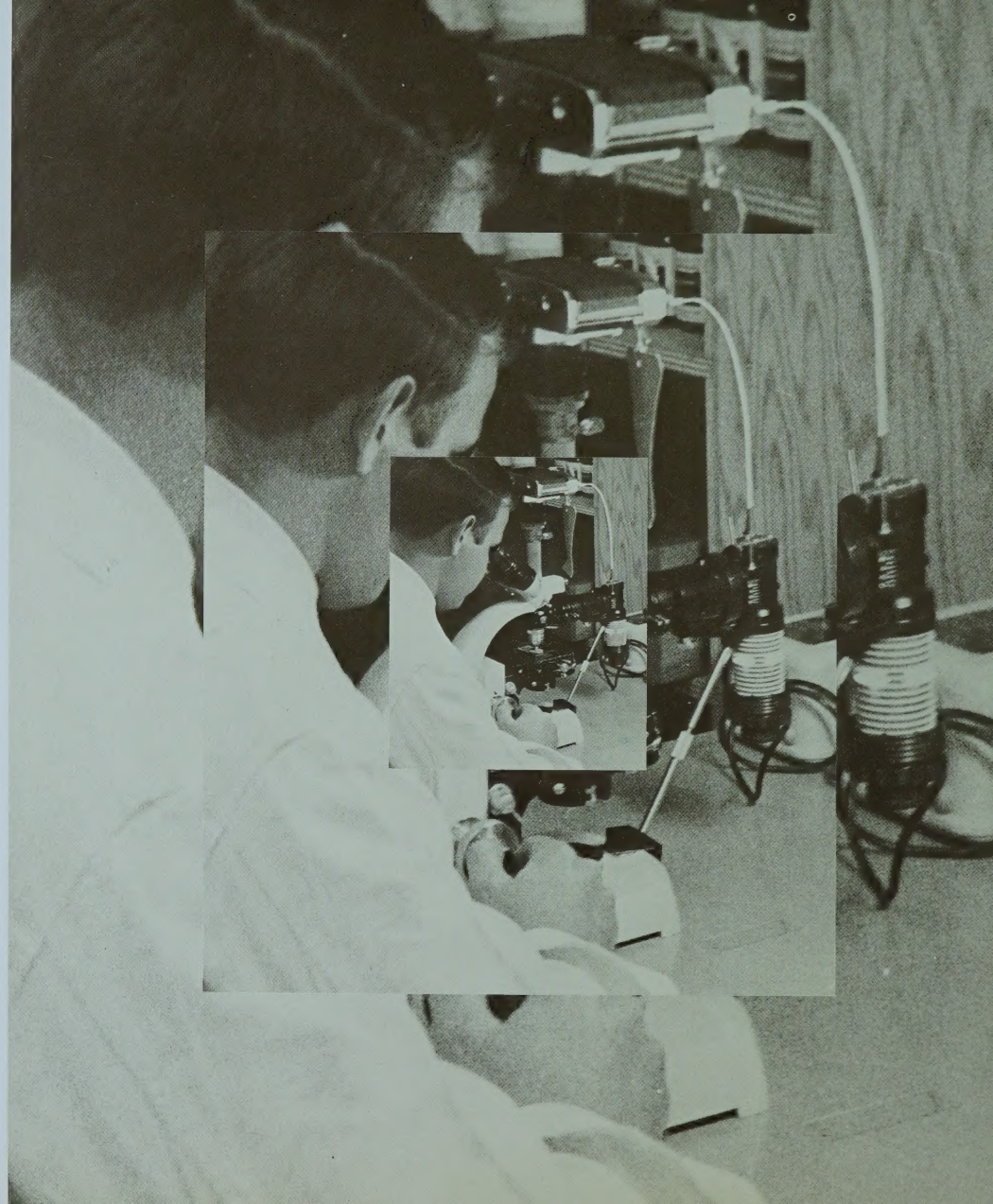
Although many plant improvements were made for efficiency, safety, and pollution control, total commitments for new facilities were kept below $400,000 for the year. The higher expenditure shown in the consolidated statement of source and application of funds represents a large carry over from major projects nearly complete at year end 1969 but billed in 1970. We are enjoying improved efficiency and higher capacity in production as a result of expenditures made over the last few years. In fact, several of our plants can produce substantially more now with a reduced staff.

In 1970, further and very substantial cost reduction moves were made. It appears now that we can achieve a very good profit improvement providing the economy does indeed turn upward. We are ready in all ways — excellent, well established products with a number of new and exciting ones — excellent sales force and technical back up. 1971 could be one of Reichhold Canada's best years. We are confident given the business climate needed, that it will be achieved.

George L. Hagen
President

	1970	1969
net sales	21,761,954	21,202,405
net earnings	145,011	217,270
earnings per common share[1]	30 cents	45 cents
book value per common share[1]	9.38	9.31

Note (1)
See note at foot of 10 Year Financial Review on page 15.



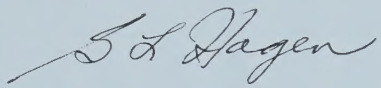
Nos affaires en 1970 ont bien commencé. Le deuxième trimestre, malgré que ce soit généralement le plus actif, a été plus lent qu'en 1969. Les ventes au cours des 3è et 4è trimestres sont de nouveau retournées à des niveaux raisonnables. En tout, les ventes ont légèrement augmenté de 2.6%. Le profit brut sur les ventes augmenta de $353,343, alors que les frais de ventes, d'administration et les dépenses générales augmentèrent d'un montant moindre. Les bénéfices avant les impôts, augmentèrent de $8,044.

Les augmentations de ventes ne sont pas survenues dans tous les groupes de produits au cours de cette dernière année. Les groupes cependant, qui ont montré une augmentation, comprennent les émulsions de latex pour la peinture, les adhésifs et les polis à plancher, les résines phénoliques spéciales, les polyesters, les recouvrements décoratifs et les encres d'imprimerie. Pour illustrer la manutention physique de tous les produits de la compagnie, il peut être intéressant de savoir que plus de 165 millions de livres de produits ont été expédiés en 1970. Ajoutez à ce fait les matières premières qui nous sont parvenues, et la manutention physique atteint le chiffre considérable de 150,000 tonnes par année. Une grande partie de ceci, évidemment est manipulé par des pipelines à télécommande ce qui rend la manutention possible avec une main-d'oeuvre relativement limitée.

Considérant les conditions extrêmement difficiles des affaires en 1970, la compagnie a réussi raisonnablement bien. Personne évidemment n'est satisfait à moins de réaliser une amélioration pour l'avenir.

Bien que plusieurs améliorations à l'usine aient été faites pour aider l'efficacité, la sécurité et le contrôle de la pollution, les engagements en tout pour de nouveaux aménagements ont été gardés au-dessous de $400,000 pour l'année. Les dépenses plus élevées indiquées dans l'état consolidé de la source et de l'emploi des fonds représentent un report considérable de projets importants presque achevés à la fin de l'année 1969 mais facturés en 1970. Nous profitons d'une efficacité accrue et d'une plus grande capacité de production à la suite des dépenses faites au cours des quelques dernières années. En fait, plusieurs de nos usines peuvent produire beaucoup plus maintenant avec un personnel réduit.

En 1970, d'autres mesures de réductions substantielles des frais ont été prises. Il semble que nous pouvons maintenant réussir une bonne amélioration de profit à la condition que l'économie s'affirme meilleure. Nous sommes prêts à tous les points de vue, nous avons d'excellents produits bien reconnus et d'autres nouveaux produits intéressants. Notre équipe de vente est aussi excellente et s'appuie sur une bonne technique. L'année 1971 pourrait être l'une des meilleures années de Reichhold au Canada. Nous avons confiance, si le climat des affaires est favorable, que cet objectif sera atteint.



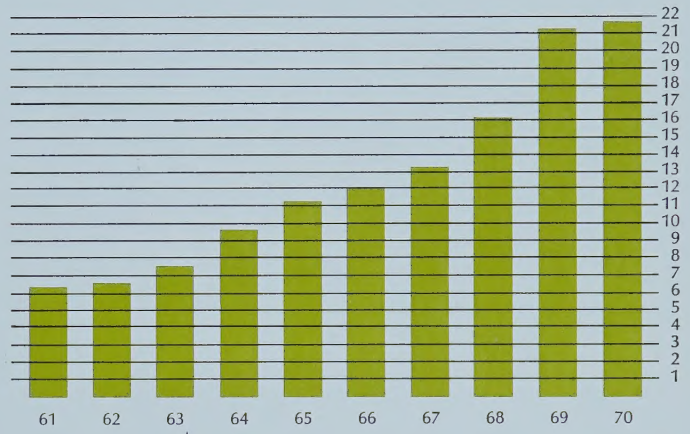
George L. Hagen
Président

Year ended December 31, 1970 with comparative figures for 1969	1970	1969
Net sales	$21,761,954	$21,202,405
Cost of sales	16,660,110	16,453,904
Gross profit	5,101,844	4,748,501
Selling, general and administrative expenses	4,478,377	4,281,777
Net operating profit	623,467	466,724
Other expenses (income):		
Interest on long term debt (note 3)	340,000	74,635
Other interest	43,353	134,650
Loss on disposal of fixed assets	11,184	3,074
Sundry — net	(98,381)	(64,902)
	296,156	147,457
Earnings before income taxes	327,311	319,267
Income taxes:		
Current	107,903	123,997
Deferred	74,397	(22,000)
	182,300	101,997
Net earnings (note 6)	145,011	217,270
Retained earnings, beginning of year	2,732,715	2,630,939
	2,877,726	2,848,209
Deduct dividends	115,494	115,494
Retained earnings, end of year (note 3)	$ 2,762,232	$ 2,732,715
Earnings per share (note 4)	$ .30	$ .45
Directors' and Senior Officers' Remuneration	$ 154,600	$ 140,600

See accompanying notes to consolidated financial statements.

10 years of sales growth

(millions of dollars)



Year ended December 31, 1970 with comparative figures for 1969

	1970	1969
Balance beginning of year	$ 1,425,184	$ 1,305,184
Add Area Development Incentives Act grant	7,049	120,000
Balance end of year	$ 1,432,233	1,425,184

See accompanying notes to consolidated financial statements.

RCC Research and Development Laboratories use the latest scientific techniques to investigate resin-wood interaction. This picture illustrates the use of Scanning Electron Microscopy to study wood structure in radial section.

Photograph by
Dr. W. A. Côté, Jr.
State University College of Forestry
at Syracuse University

	1970	1969
Cash	$ 77,421	$ 11,239
Deposit receipt	—	400,000
Marketable securities, at cost (quoted value $18,656; 1969 — $16,250)	25,000	25,000
Accounts receivable:		
Trade	3,931,366	3,477,658
Other	485,481	624,314
	4,416,847	4,101,972
Less allowance for doubtful accounts	293,838	214,963
Net receivables	4,123,009	3,887,009
Inventories, at the lower of cost or market (net realizable value)	3,391,513	3,153,605
Income taxes recoverable	73,334	203,208
Prepaid expenses	173,548	198,345
Total current assets	7,863,825	7,878,406
iovernment grant due 1971	—	24,000
Buildings and equipment at cost	9,445,097	8,736,914
Less accumulated depreciation	5,222,945	4,740,857
	4,222,152	3,996,057
Land at cost	178,800	178,800
Net Fixed Assets	4,400,952	4,174,857
Deferred development costs, less amortization of $12,368 (1969 — $5,649)	42,764	34,624
Unamortized debt discount and financing expense less amortization of $8,014 (1969 — $1,140)	174,647	135,096
Goodwill, being the excess of cost over recorded equity of subsidiary at date of acquisition	164,781	164,781
Total other assets	382,192	334,501
	$12,646,969	$12,411,764

See accompanying notes to consolidated financial statements.

liabilities and shareholders' equity

	1970	1969
Current liabilities:		
Bank advances, secured (note 2)	$ 798,989	—
Accounts payable and accrued expenses	2,372,991	2,589,539
Due to associated company, Reichhold Chemicals Inc.	177,068	429,707
Unsecured non-interest bearing debentures	—	205,560
Total current liabilities	3,349,048	3,224,806
8½% sinking fund debentures, Series A (note 3)	4,000,000	4,000,000
Deferred income taxes	736,500	662,103
Minority shareholders' interest in subsidiary company	46,140	46,140
Shareholders' equity:		
Capital stock (note 4)		
Common shares without nominal or par value		
Authorized 2,287,500 shares; issued 481,224 shares	320,816	320,816
Contributed surplus	1,432,233	1,425,184
Retained earnings (note 3)	2,762,232	2,732,715
Total shareholders' equity	4,515,281	4,478,715
Contingent liabilities and commitments (note 5)		
	$12,646,969	$12,411,764

On behalf of the Board: D. G. McNabb, Director; R. J. Adams, Director.

Auditors' Report to the shareholders

We have examined the consolidated balance sheet of Reichhold Chemicals (Canada) Limited and subsidiaries as of December 31, 1970 and the consolidated statements of earnings and retained earnings, contributed surplus, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change with which we concur, in the basis of recording depreciation as described in Note 6 to the Financial Statements, were applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants, Toronto, Ontario, March 5, 1971.

Year ended December 31, 1970 with comparative figures for 1969

	1970	1969
Net earnings	$ 145,011	$ 217,270
Add charges not requiring cash expenditure:		
Depreciation (note 6)	504,448	625,552
Amortization of debt discount and financing expense and deferred charges	20,382	6,789
Loss on disposals of fixed assets	11,184	3,074
Deferred income taxes	74,397	(22,000)
Funds provided from operations	755,422	830,685
8½% sinking fund debentures, Series A	—	4,000,000
Area Development Incentives Act grant	31,049	96,000
Total funds provided	786,471	4,926,685
Additions to plant and equipment (net of proceeds on disposals)	741,727	979,244
Retirement of long term debt	—	555,560
Dividends	115,494	115,494
Debt discount and financing expense and deferred development costs	68,073	176,509
Reduction in minority shareholders' interest in subsidiary company	—	6,500
Total funds applied	925,294	1,833,307
(Decrease) Increase in working capital	$ (138,823)	$ 3,093,378

See accompanying notes to consolidated financial statements.

33%
Other Decorative Overlays, Speciality Industrial Resins, Chemicals, Oils, Printing Inks, and Supplies.
26%
Resins for Paint, Floorwax Surface Coatings.
21%
Plastics and Molding Compounds for Electrical Appliances, Transportation, Recreation, Industrial, Decorative.
20%
Resins for Forest Products Plywood, Particle Board, Paper.

1 Basis of Consolidation

The consolidated financial statements include the accounts of the two subsidiaries, Varcum Chemical Corporation (Canada) Limited and The Canada Printing Ink Company Limited. All material inter-company items and transactions have been eliminated.

2 Bank Advances

The bank advances are secured by a general assignment of accounts receivable.

3 8½% Sinking Fund Debentures, Series A due November 1, 1989

These debentures are secured by a first floating charge on the undertaking and all the property and assets of the company and may be prepaid at the holder's option on November 1, 1979. The company is required to establish a sinking fund sufficient to retire in each of the years 1975 to 1979 inclusive, $220,000 of the debentures and thereafter is to make equal annual reductions to November 1, 1988 of the principal amount outstanding to $800,000. The debentures will be redeemable at the option of the company, after November 1, 1974, at a premium of 6.25% reducing to par in the year of maturity.

The trust deed securing the debentures, contains certain provisions restricting the payment of dividends. At December 31, 1970, $67,400 of consolidated retained earnings was free of such restrictions.

4 Capital Stock

Under the terms of issue of the 8½% sinking fund debentures, Series A, 100,000 shares are reserved for exercise of warrants issued to holders of the Series A debentures, exercisable on or before November 1, 1979 at $12 per share. The exercise of these warrants would have had no dilutive effect on earnings per share.

5 Contingent Liabilities and Commitments

The company is contingently liable to the extent of $33,000 under its guarantee of a bank loan.

Under the companies' pension plans the unfunded liability for past service benefits was calculated as at September 1, 1970 as $77,481. This amount is being satisfied by the payment of and charge to the accounts of the companies in the amount of $6,265 annually.

A subsidiary leases certain properties for annual rentals aggregating $58,756 under long term leases extending to various dates from 1977 to 1979.

6 Change in Basis of Recording Depreciation

In 1969 and prior years the company recorded depreciation on certain machinery and equipment using the diminishing balance method. In 1970 this practice was changed to recording depreciation on the straight line method based on the estimated service lives of such assets. This change had the effect of reducing depreciation charged in 1970 which, after the income tax effect, increased net earnings for that year by $55,812.

	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Net sales ($'000)	$21,762	$21,202	$16,108	$13,286	$12,000	$11,231	$9,713	$7,559	$6,684	$6,436
Profit (loss) before income taxes and special items	327	319	631	886	677	908	895	632	355	(120)
Special profit (loss) items	—	—	—	—	—	(25)	—	(65)	110	—
Net profit (loss) after income taxes	145	217	322	451	368	425	444	250	247	(80)
Expenditures on fixed assets	742	979	392	658	1,217	868	675	481	154	188
Provision for depreciation and amortization	525	632	603	586	479	418	329	285	231	229
Fixed assets at net book value	4,401	4,175	3,824	3,909	3,842	3,114	2,664	2,354	2,257	2,349
Net earnings per common share[1]	$ .30	$ .45	$ .67	$ .99	$ .80	$ .93	$ .97	$ .52	$ .52	$ (.21)
Dividends paid per common share	$ .24	$ .24	$ .21	$ .20	$ .192	$ .167	$ .15	$ .10	$ .05	$ .05
Book value per common share[1]	$ 9.38	$ 9.31	$ 8.85	$ 8.25	$ 7.48	$ 6.87	$ 6.18	$ 5.36	$ 4.93	$ 4.46

Note (1)

Calculation of net earnings per common share is based on the weighted average number of shares outstanding during the respective periods. Book value per common share is based on the number of shares outstanding at the end of the respective periods. The number of common shares and per share calculations have been adjusted where applicable to reflect the stock split in December 1968 whereby two additional shares were issued for each share held prior to the split.

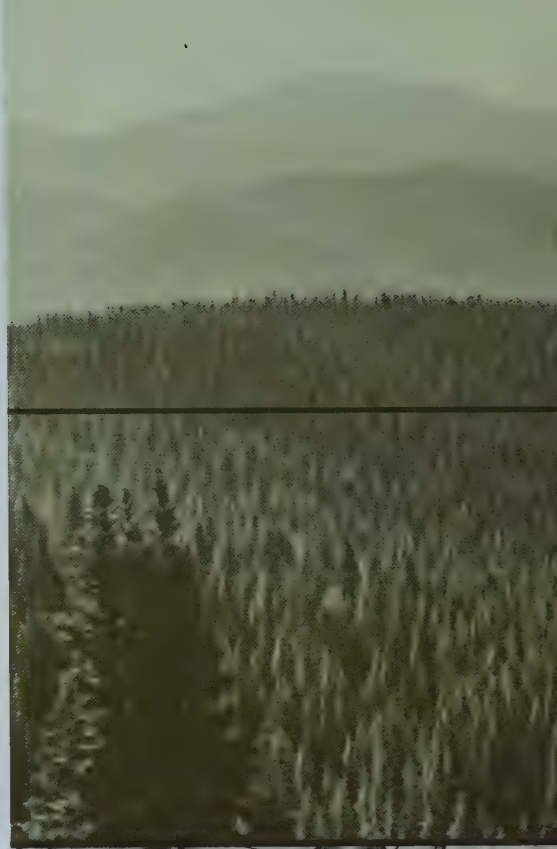
Reichhold Chemicals (Canada) Limited supplies a myriad of products to hundreds of different markets. Moreover, many of the RCI products now being marketed have been added to the company's product list only in the last 10 years. A number of them did not exist before that time.

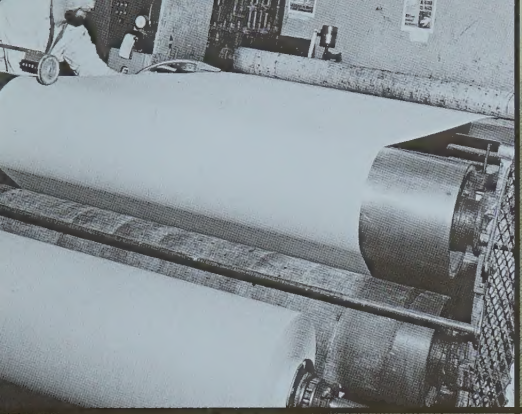
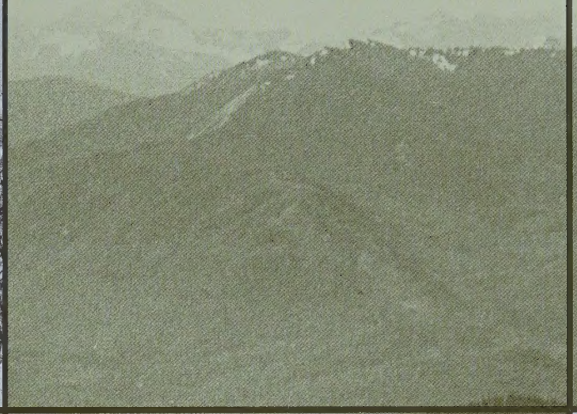
Reichhold Chemicals (Canada) Limited will add new products to its lines in the decade ahead and in the years that will follow. Its research and development facilities are at this moment at work on products and processes of the future.

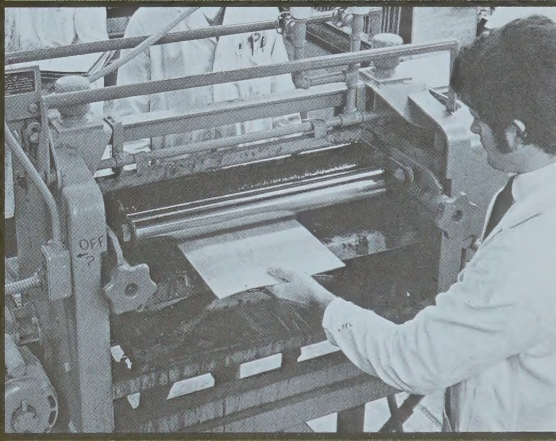
The company's present products are being used in increasing quantities by a number of those industries which have shown the greatest growth in the past decade, and whose growth will accelerate in the years ahead. They include construction, building materials, paints, transportation equipment, furniture and floor coverings, electrical equipment, tires and rubber products, printing, adhesives, non-ferrous metal castings, and chemicals.

Reichhold's expectations for growth are based primarily on such factors as the rising world population, the need for more efficient means of moving people and goods and for improved communications, the competitive demands on manufacturers to produce better products more efficiently and at lower cost, and finally the growing scarcity of natural materials and the need to find adequate replacements.

tradenames	products	applications
ALPHAPRENE	Acrylic Emulsions	Abrasives
ALSYNITE	Accelerators	Adhesives
BECKACITE	Air Filtration Products	Agricultural Products
BECKAMINE	Hard Resins	Appliances
BECKOLIN	Alkyd Resins	Automotive
BECKOPOL	Alkyd Emulsions	Boats
BECKOSOL	Catalysts	Building Panels
BETAPRENE	Core Oils	Chewing Gum
CO-POL	Epoxy Resins and Hardeners	Closures
coRCIment	Esters	Electrical Devices
CO-RELEES	Formaldehyde	Fiberglass Molding
DEECY	Glass Fiber Reinforcement	Filament Winding
DELTAPRENE	Hydrocarbon Resins	Floor Polishes
DIARON	Melamine Resins	Floor Tiles
EPOTUF	o-Benzyl-p-Chlorophenol	Floor Waxes
FORAMINE	o-Phenylphenol	Flotation
FORASITE	Organic Peroxides	Foundries
FORMOX	Phenolic Resins	Furniture
FOUNDREZ	Polyester Resins	Highway Maintenance
GAMMAPRENE	Plasticizers	Home Construction
HYDROGUM	Polystrene Emulsions	Industrial Construction
JEL-O-MER	Polyterpene Resins	Insulation
LUSTRASOL	Polyurethane Resins	Leather
MODIGLASS	Polyvinyl Acetate Emulsions	Packaging
PENTACITE	Resorcinol-Formaldehyde Resins	Paint
PEROXIDOL	Thermosetting Molding Compounds	Particle Board
PLYAMINE	Urea Resins	Paper Manufacture
PLYAMUL	Urea-Formaldehyde Adhesives	Plastic Moldings
PLYOCITE	Urethane Foam Resins	Plywood
PLYOPHEN	Vinyl Stabilizers	Polymer Production
POLYLITE		Potting Compounds
POLY-AUTOPLATE		Protective Coatings
STAFLEX		Printing
STYRESOL		Refrigeration
SUPER-BECKACITE		Rubber Products
SUPER-BECKAMINE		Textiles
SUPER-BECKOSOL		Utensils
SYNTHE-COPAL		Varnishes
SYNTHEMUL		Vinyl Products
VARCUM		
WALLKYD		
WALLPOL		
WATEREZ		
WETstrez		

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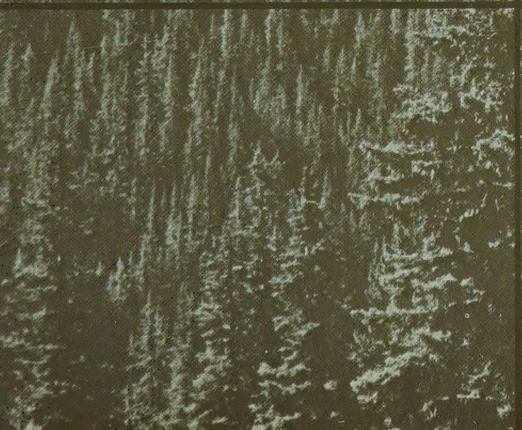

plants and sales offices

Weston, Ontario (Head Office)
Ste. Therese de Blainville, Quebec
Lindsay, Ontario
North Bay, Ontario
Kamloops, British Columbia
Port Moody, British Columbia

subsidiary

The Canada Printing Ink Company Limited

Etobicoke, Ontario
Montreal, Quebec
Edmonton, Alberta
Moncton, New Brunswick
Ottawa, Ontario
Vancouver, British Columbia
Winnipeg, Manitoba

Registrar and Transfer Agent, Common Stock:
National Trust Co. Ltd., Toronto, Montreal, Vancouver, Calgary, Winnipeg

Auditors:
Peat, Marwick, Mitchell & Co., 4 King St. W., Toronto

directors

Robert J. Adams
Vice-President, Eastern Division, Reichhold Chemicals (Canada) Limited

Charles B. Breedlove
Vice-President, Midwest Division, Reichhold Chemicals Incorporated

Peter J. Fass
Vice-President, Purchasing, Reichhold Chemicals Incorporated

George L. Hagen
President and Chief Executive Officer, Reichhold Chemicals (Canada) Limited

Donald G. McNabb
Executive Vice-President, Reichhold Chemicals (Canada) Limited

Henry H. Reichhold
Chairman of the Board and Chief Executive Officer, Reichhold Chemicals Incorporated

Brian W. Shields
Member, Law firm of Tory, Tory, Deslauriers & Binnington

*Ralph T. Urich
Senior Vice-President
Reichhold Chemicals Incorporated

W. Arthur Weismann
Vice-President, Sales, National Accounts, Reichhold Chemicals Incorporated;
Vice-President, Sales Promotion, Reichhold Chemicals (Canada) Limited

officers

G. L. Hagen
President and Chief Executive Officer

D. G. McNabb
Executive Vice-President

W. A. Weismann
Vice-President, Sales Promotion

R. J. Adams
Vice-President, Eastern Division

L. Roy
Vice-President, Sales, Eastern Division

B. W. Shields
Secretary

B. Gallagher
Treasurer

*Deceased January 25, 1971

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